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IN REPLY REFER TO

FEB 23 2004

THE HONORABLE J. DANNIS HASTERT
Speaker
House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

I am notifying you of a decision to convert to contractor performance a function of the Department of Defense (DoD) performed by 176 DoD civilian employees. The Department of the Navy intends to convert to performance by the private sector Retail Supply functions in Jacksonville, Mayport, and Key West, FL; Corpus Christi, Kingsville, and Ingleside, TX; and Charleston, SC (initiative number NC20000612).

The analysis of the function was commenced in March 2001. The cost comparison was completed in October 2003, resulting in a decision to continue performance by DoD civilian employees. The private sector offeror subsequently protested to the General Accounting Office (GAO). The GAO found in January 2004 that the Navy's initial cost analysis did not include costs for some performance work statement requirements. GAO determined that the cost of Navy performance of functions would be greater than private sector when factoring in all requirements.

The Department of the Navy intends to award the contract to the private sector based on the GAO findings. Conversion to private sector operations is planned for May 2004 and the life of the contract is projected to be five years.

An examination of the cost of performance of the function by DoD civilian employees and by the accepted offer of the private contractor produced a finding that the most cost effective manner to obtain the services is through a change to performance by the private sector. Below is a summarized comparison of the cost of performance of the function:

Historical Cost to perform by DoD civilian employees:	\$ 46,528,000
Estimated cost to perform by DoD civilian employees:	\$ 18,708,000
Amount of Private Contractor's Offer:	\$ 16,065,000
Estimated Government incurred cost because of contract:	\$ 1,191,000
Total projected savings over the period of performance:	\$ 29,272,000

The announced number of DoD positions performing the function when the analysis was commenced was 148. This number is less than the announced number of FTE (176) as a result of business unit realignment to better facilitate competition. As a result of the competition, 94 DoD employees will be reassigned to equivalent or lower positions, 31 employees will be taking early or normal retirement, and 23 employees will be separated.

I make the following certifications:

The analysis of the function for possible change to private sector included the estimated cost to the Government for performance in the most cost effective manner by DoD civilian employees; and the analysis

did not include any predetermined personnel constraint or limitation in terms of man-years, end strength, full-time equivalent positions, or maximum number of employees.

The entire analysis is available for examination and demonstrates that the performance of the function by the private sector will result in savings to the Government over the life of the contract.

The conversion of the function to contractor operations results in anticipated savings that make the resulting cost of operations significantly less than the current cost of operations. This equates to a \$5,854,400 annual reduction of gross salaries and other services being expended into the local economies. With a total business volume of over \$55,015,791,000 in annual sales, this reduction represents less than 0.1064% of sales.

The performance of this function by the private sector will have no adverse effect on the military missions associated with it.

A similar letter has been sent to the President of the Senate and Chairmen Stevens, Warner, Lewis, and Hunter. If I can be of further assistance, please let me know.

Sincerely,

A handwritten signature in dark ink, appearing to read 'G. L. Hoewing', is written over a horizontal line.

G. L. HOEWING

Vice Admiral, U.S. Navy
Deputy Chief of Naval Operations
(Manpower and Personnel)